

First City Financial Corporation Ltd. 1972 Annual Report

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1972

Annual Report

First City Financial Corporation Ltd.

HEAD OFFICE

Suite 1040, 1055 West Hastings Street,

777 Hornby Street, Vancouver

Vancouver, British Columbia 688-4225

BRANCH OFFICE

McLeod Building, Edmonton 15, Alberta 429-4811

Subsidiaries:

CITY SAVINGS & TRUST COMPANY		PACIFIC LEASING CORPORATION LIMIT	ED
Edmonton, McLeod Building	429-4811	Suite 1040, 1055 West Hastings Street,	
King Edward Hotel	429-5966	Vancouver	688-9978
Londonderry Mall	476-7661	McLeod Building, Edmonton 15, Alberta	429-4811
Toronto, 95 Yonge Street	864-1090		
Winnipeg, 369 Portage Avenue	947-1543	C.S.T. MORTGAGE CORPORATION LTD.	
Regina, 1861 Hamilton Street	522-2691	Suite 1290, 777 Hornby Street,	
Calgary, 336-7th Avenue, S.W.	266-8851	Vancouver, B.C.	687-6851
Vancouver, 777 Hornby Street	688-9421	E C EINIANCIAI ACCOCIATECITO	
Victoria, 1306 Douglas Street	383-4141	F.C. FINANCIAL ASSOCIATES LTD. Suite 1290, 777 Hornby Street,	
Kamloops, 210-155 Victoria Street	374-2136	Vancouver, B.C.	687-2018
Head Mortgage Office			

687-6851

Directors and Officers

Directors

Senator David A. Croll, Q.C.
Toronto, Ontario, Chairman of the Board

Samuel Belzberg, B.Comm. Vancouver, British Columbia, *President*

R. C. Baxter, B.Comm. Vancouver, British Columbia

Hyman Belzberg Calgary, Alberta

William Belzberg Calgary, Alberta

Senator Allister Grosart, B.A. Toronto, Ontario

W. Bernard Herman, Q.C. Toronto, Ontario

Morley Koffman Vancouver, British Columbia

Arthur B. Mauro, Q.C. Winnipeg, Manitoba

Joseph H. Shoctor, Q.C. Edmonton, Alberta

Officers

Morley Koffman,

Secretary

Senator David A. Croll, Q.C.
Chairman of the Board
Samuel Belzberg, B.Comm.
President
William Belzberg,
Vice-president
Michael Cytrynbaum,
Vice-president

Auditors

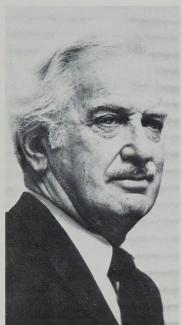
Deloitte, Haskins & Sells Chartered Accountants

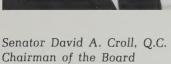
Bankers

Bank of British Columbia
Bank of Montreal
Canadian Imperial Bank of Commerce
Royal Bank of Canada
The Toronto-Dominion Bank
The Mercantile Bank of Canada

Stock Exchange Listings
Toronto Stock Exchange
Vancouver Stock Exchange

Report to Shareholders







Samuel Belzberg, B.Comm. President

Since the formation of First City Financial Corporation Ltd. in 1970, we have been moving rapidly towards a goal of complete one-stop financial services for the business community. Again in 1972, your company made substantial progress through expansion of its existing services and the creation of new subsidiaries which are expected to make a significant contribution to future earnings.

The growth in our operations was accompanied by a marked increase in revenue and operating income resulting in a 62 percent rise in net profit to \$1,110,088 or more than double our earnings of two years ago.

As a result of this sharp rise in earnings and the favourable outlook for 1973, your directors have decided to increase the annual dividend rate from its present level of 16 cents per share annually to 20 cents per share, a 25 percent increase. We will also be recommending to the annual meeting a two for one stock split. The expansion of services and earning capacity has been reflected in the securities market where the price of First City shares reached a February high in excess of \$20.

We feel a stock split would be beneficial at this stage in our growth by making more shares available for trading and in reducing the per share price to a level which can attract a wider number of investors. At present we have 691,411 common shares outstanding.

The First City group is particularly well financed for future expansion. We completed an underwriting of Series A Debentures in July, 1972 which netted the treasury \$2,895,000 and was used to retire a bank loan in connection with the purchase of Pacific Leasing Corporation Limited and to finance present and future growth. Warrants attached to this issue are now being traded on the Toronto and Vancouver Stock Exchanges.

In addition, the companies within our group have almost \$20 million available to them in lines of bank credit with which to fund new business in 1973.

Expansion of our services in 1972 came at a time when the Canadian economy, despite some regional soft spots, has shown much more buoyancy than was evident in 1971 and the demand for financial services, particularly from industry and from real estate developers, has been rising sharply.

Report to Shareholders

Reflecting this demand, our subsidiary, City Savings & Trust Company, increased its mortgage portfolio by a record 63 percent in 1972 and already has substantial commitments for additional mortgage funds in the current year.

Pacific Leasing Corporation, after a period of consolidation which followed our acquisition of the company, has experienced an upsurge in demand for its services resulting in receivables at year-end totalling in excess of \$11 million. We have now opened a branch of this subsidiary in Edmonton and plan to expand into Toronto early in 1974.

The First City group has also formed new subsidiaries which are designed to complement the services of our existing organizations. These are C.S.T. Mortgage Corporation Ltd., in which we will have a 40 percent equity position with City Trust holding the remaining 60 percent; F.C. Financial Associates Ltd., a wholly owned subsidiary; and Citrust Developments Ltd., a City Trust subsidiary.

C.S.T. Mortgage is capitalized at \$3 million and will act as a mortgage lender and a mortgage broker. With the addition of this company to complement our existing mortgage services we can now handle and service any type of mortgage financing. The main emphasis of operations will be towards the real estate development industry where we have considerable expert knowledge at our disposal.

With our ability to make quick decisions and to tailor loans to individual needs, we believe this company will quickly make a meaningful contribution to First City revenues.

F. C. Financial Associates rounds out our services to Canadian businessmen, particularly small, developing industries. This firm will advise businessmen on financial problems and provide lines of financing including taking care of their equity requirements.

City Trust has broadened its services with a new subsidiary. Citrust Developments Ltd. will specialise in arranging mortgage financing and acquiring and leasing industrial buildings under an arrangement with a national manufacturer of prefabricated structures. We have been particularly fortunate in attracting key officers to handle these operations which we feel will quickly prove to be sources of additional revenues for our whole group.

We are able, through our group of companies, to handle virtually all business development needs, from site selection through to construction of buildings, financing, equipment leasing, and providing equity requirements.

In future expansion moves which are being considered by management, we expect to increase services to meet the full range of personal financial needs of our depositors, both as individuals as well as members of the business community.

In a country with the growth potential of Canada, the outlook for a well managed comprehensive group of financial companies is excellent and we look forward to the future of the First City group with a high degree of confidence.

In closing, we would like to pay particular tribute to the management and staff of our group of companies whose efforts have made the results of the past year possible.

Havid A Sold Senator David A. Croll

Senator David A. Croll chairman

Damuel Belglery

Samuel Belzberg president

Review of Operations

Financial Results

Net earnings of your company totalled a record \$1,110,088 or \$1.63 per share compared with \$688,405 or \$1.02 per share in 1971, representing an increase in per share earnings of 60 percent. Of this 13 cents came from net gains on equity investments of a subsidiary. Total revenues were \$9,615,210, a gain of 38.4 percent from 1971, while income from operations before provision for income taxes and minority interest was \$2,070,577, a gain of \$714,951 over the previous year.

Largest portion of our income came from the operations of City Savings & Trust Company which contributed \$833,195, or the equivalent of \$1.23 per share to total earnings. The remaining 40 cents per share resulted from earnings of Pacific Leasing and First City.

City Savings & Trust

This subsidiary company, in which we now have a 78.4 percent interest, experienced a rapid rate of growth during 1972, its tenth anniversary year.

Record increases were achieved in customer deposits, mortgage investments, and earnings which, for the first time, exceeded \$1 million.

Gross revenue of City Trust amounted to a record \$8,214,472, a rise of 26 percent from \$6,507,425, while net profit totalled \$1,063,667, a gain of 61 percent from \$658,411.

Customer deposits rose 51.8 percent from \$58.9 million to \$89.4 million, and mortgage portfolio showed a 63 percent gain from \$41.6 million to \$67.8 million.

City Trust opened a branch in Toronto, its first in eastern Canada, and two in Edmonton during the year bringing the total branch operations to nine. In addition, new regional operations were established for the mortgage division. The mortgage business of this subsidiary continues to accelerate at a rapid rate and substantial commitments have already been made for 1973 at highly favourable rates.

All divisions of City Trust proved profitable in 1972 and with additional branches scheduled for opening in the next year, including a second Toronto branch in June, we anticipate continued growth in earnings and services in 1973.



Review of Operations

Pacific Leasing

In its first full year of operation since being purchased by First City, Pacific Leasing made a significant contribution to earnings during 1972. Net income was \$273,000 compared with \$54,000 for the seven month period in 1971 that the company was owned by us. Income before taxes was \$503,000 compared with \$78,000 in the 1971 period.

Pacific has been engaged in the field of industrial and commercial leasing in B.C. and Alberta since 1952 but has never realised its full potential. Since acquiring the company we have cleared up outstanding delinquent accounts and increased the total portfolio to \$11 million, of which at least 75 percent is with companies having a net worth of not less than \$1 million.

New services have been introduced to provide funds secured by chattel mortgages and conditional sales contracts, and master lease agreements to large companies covering their annual equipment needs.

Although Pacific Leasing has written business in Alberta, during the first 18 months of its operation by First City the company's strongest area of expansion has been in British Columbia. We have now opened an office in Edmonton and will be looking for a considerable increase in our business in Alberta during 1973. We also intend to move into Toronto early in 1974.

Pacific Leasing now has extensive lines of bank credit and, with the exception of consumer financing, is able to handle all forms of financing.

Staff

The growth of First City and its subsidiary companies is due in large measure to the efforts of management and staff of these companies who have succeeded in meeting and, in many cases, exceeding the targets set for them in 1972. We have set them a considerable challenge in the year ahead, but are secure in the knowledge that they are equal to the tasks facing them.

Directors

We are pleased to announce the appointment to our board of two new directors whose experience and skilled advice will be invaluable to the future growth of First City. Mr. R. C. Baxter, president of R. C. Baxter Ltd., a leading Canadian real estate developer; and Mr. Arthur B. Mauro, Q.C., president and chief executive of Transair Limited, Winnipeg, both joined the board in 1972 and have already proved of invaluable assistance in furthering our expansion plans.

Dividends

During 1972, First City increased its dividend rate by 33 percent to a total of 16 cents per share compared with a rate of 12 cents a share in 1971. Shareholders will receive a larger share of profits in the form of dividends in 1973 when the rate is raised 25 percent to 20 cents per share.

Outlook

The economic outlook for Canada continues to be promising through 1973, despite the problems of inflation and unemployment which current government programs are not entirely resolving. We expect a high level of growth in home construction and a build-up in business inventory which will require the services offered by the First City group. The recent devaluation of the U.S. dollar, providing it is not accompanied by import curbs in the United States, should prove highly favourable to the Canadian economy and particularly to our export industries.

The outlook for our own company is for continued growth in products and services and in revenues and earnings.

Consolidated Statement of Income

For the Year Ended December 31, 1972 [with 1971 figures for comparison]

First City Financial Corporation Ltd. and Subsidiaries

	1972	1971
DEVENIUE.		
REVENUE: Investment Income	\$ 7,084,355	\$ 5,311,181
Fees, commissions and other income	1,523,507	1,214,186
Lease and secured contract income	1,007,348	420,869
Total Revenue	9,615,210	6,946,236
Total Nevenue	3,013,210	0,940,230
EXPENSES:		
Interest on guaranteed account	4,318,338	3,505,556
Interest on term debt	310,774	72,734
Other interest	220,048	100,565
Operating and administration	1,465,986	963,048
Salaries and employee benefits	1,116,235	867,963
Depreciation	102,231	64,398
Amortization of deferred costs	11,021	16,346
Total expenses	7,544,633	5,590,610
INCOME FROM OPERATIONS BEFORE		
INCOME TAXES	2,070,577	1,355,626
PROVISION FOR INCOME TAXES:		
Current	585,229	554,153
Deferred	258,177	63,778
Total provision for income taxes	843,406	617,931
INCOME FROM OPERATIONS	1,227,171	737,695
NET GAIN (LOSS) ON EQUITY INVESTMENTS		
OF SUBSIDIARY —	440.000	(40 5 40)
net of income taxes of \$78,107 (1971 - \$nil)	113,389	(18,548)
INCOME BEFORE MINORITY INTEREST	1,340,560	719,147
MINORITY INTEREST	230,472	30,742
NET INCOME FOR THE YEAR	\$ 1,110,088	\$ 688,405
EARNINGS PER SHARE [Note 12]	\$ 1.63	\$ 1.02
ETHININGS TEN STITULE [NOTE 12]	<u> </u>	\$ 1.02

Consolidated Balance Sheet

as at December 31, 1972 [with 1971 figures for comparison]

First City Financial Corporation Ltd. and Subsidiaries

ASSETS	1972	1971
CASH AND CERTIFICATES OF DEPOSIT [Note 2] SECURITIES [Note 3] MORTGAGES AND SECURED LOANS [Note 4] REAL ESTATE [Note 5] LEASE AND SECURED FINANCE CONTRACTS RECEIVABLE [Note 6] OTHER ASSETS: Accounts receivable Prepaid expenses Premises, office equipment and furnishings— at cost less accumulated depreciation and amortization of \$295,911 (1971 - \$236,760)	\$ 11,742,820 17,409,728 70,660,998 536,699 9,259,580 763,532 105,481	\$ 7,194,476 15,996,221 41,689,162 528,218 5,635,220 566,110 90,609
[Note 7] Unamortized deferred costs [Note 8]	602,088 211,446	201,193 29,158
Total other assets EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER ACQUIRED EQUITY IN NET ASSETS [Note 1]	1,682,547	887,070 1,968,379
TOTAL	<u>\$112,903,504</u>	<u>\$ 73,898,746</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	1972	1971
GUARANTEED ACCOUNT:		
Savings deposits	\$ 17,693,277	\$ 13,748,046
Investment certificates	<u>71,792,204</u>	45,190,515
Total guaranteed account	89,485,481	58,938,561
BANK INDEBTEDNESS [Note 9]	2,280,114	2,654,233
ACCOUNTS PAYABLE AND ACCRUED CHARGES	1,051,792	1,619,072
INCOME TAXES PAYABLE	144,270	156,573
DIVIDENDS PAYABLE	10,680	12,911
DUE TO SHAREHOLDERS	_	13,100
DEFERRED MORTGAGE FEES	550,894	393,228
TERM DEBT [Note 10]	8,361,692	1,983,210
DEFERRED INCOME TAXES	1,104,166	848,388
MINORITY INTEREST	1,577,284	197,236
SHAREHOLDERS' EQUITY: Share capital [Note 11]:		
Preferred shares	1,000,000	1,000,000
Common shares	5,519,787	5,415,485
Retained earnings	1,817,344	666,749
Total shareholders' equity	8,337,131	7,082,234
TOTAL	<u>\$112,903,504</u>	<u>\$ 73,898,746</u>

APPROVED BY THE BOARD:

Arond A Broll Director
Damuel Belgleig Director

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1972 [with 1971 figures for comparison]

First City Financial Corporation Ltd. and Subsidiaries

	4072	1971
	1972	19/1
RETAINED EARNINGS AT BEGINNING OF THE YEAR	\$ 666,749	\$ 72,330
NET INCOME FOR THE YEAR	1,110,088	688,405
	1,776,837	760,735
DIVIDENDS ON COMMON SHARES	109,603	81,074
DIVIDENDS ON PREFERRED SHARES	27,975	12,912
Total Dividends	137,578	93,986
	1,639,259	666,749
GAIN ON ISSUE OF TREASURY SHARES OF SUBSIDIARY [Note 13]	178,085	
RETAINED EARNINGS AT END OF THE YEAR	\$ 1,817,344	\$ 666,749

Consolidated Statement of Source and Application of Cash (Note 17)

For the Year Ended December 31, 1972 [with 1971 figures for comparison]

First City Financial Corporation Ltd. and Subsidiaries

	1972	1971
SOURCE OF CASH:	.	
Net income for the year	\$ 1,110,088	\$ 688,405
Depreciation and amortization	113,252	80,745
Deferred income taxes Minority interest	258,177 230,472	63,778 30,742
Total cash provided from operations	1,711,989	863,670
Guaranteed account — net	30,546,920	11,290,268
Term debt — net	6,378,482	175,748
Issue of treasury shares by subsidiary Bank indebtedness — net	1,811,540	1,454,233
Decrease in securities — net	_	1,068,903
Issue of preferred shares	_	1,000,000
Issue of common shares	99,302	32,100
Sale of real estate — net	_	203,156
Reduction in purchase price of subsidiary	30,000	_
Cash on hand at date of purchase		
of subsidiaries	20,754	97,276
Other — net		323,212
Total cash provided	40,598,987	16,508,566
APPLICATION OF CASH:		
Net investment in:		
Mortgages and secured loans	28,971,836	11,080,308
Lease and secured finance	0.004.000	447 000
contracts receivable Securities	3,624,360	417,208
Investment in subsidiaries	1,413,507 144,357	1,515,878
Purchases of premises, office equipment and	144,557	1,515,676
furnishings — net	503,126	31,758
Reduction of bank indebtedness — net	374,119	
Dividends	137,578	93,986
Other — net	881,760	
Total cash applied	36,050,643	13,139,138
INCREASE IN CASH FOR THE YEAR	4,548,344	3,369,428
CASH AND CERTIFICATES OF DEPOSIT AT		
BEGINNING OF THE YEAR	7,194,476	3,825,048
CASH AND CERTIFICATES OF DEPOSIT AT		
END OF THE YEAR	\$11,742,820	\$ 7,194,476

Notes to the Consolidated Financial Statements

December 31, 1972

First City Financial Corporation Ltd. and Subsidiaries

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the company and its subsidiaries:

A. City Savings & Trust Company:

Approximately 96% owned throughout 1971 and for the month of January 1972, approximately 77% thereafter to December 31, 1972 [Note 13].

B. Pacific Leasing Corporation Limited and its subsidiary, P.L.C. Investments Ltd.:

100% owned from June 1, 1971.

C. C.S.T. Mortgage Corporation Ltd.:

100% owned from December 15, 1972.

The results of operations of the subsidiaries after considering minority interests are included in the consolidated financial statements from the respective dates of acquisition.

All material intercompany balances and transactions have been eliminated.

All acquisitions have been accounted for by the purchase method. The excess of the cost of shares in the subsidiaries over the equity in their net assets at acquisition dates is carried at cost.

The excess of the cost of investment in subsidiaries over acquired equity in net assets changed during the year as follows:

Balance as at December 31, 1971 \$ 1,968,379

Deduct:

Reduction resulting from the sale of treasury shares by City Savings & Trust Company during the year [Note 13]	369,278
Negotiated reduction in the original cost of shares of Pacific Leasing Corporation Limited	30,000
	399,278
	1,569,101

Add:	
Excess of cost of acquisitions of further	
shares of City Savings & Trust Company	
during the year over equity in	
net assets acquired	38,954
Excess of cost over the net book value on	
acquisition of C.S.T. Mortgage	
Corporation Ltd.	3,077
Balance as at December 31, 1972	\$ 1,611,132

All of the shares of C.S.T. Mortgage Corporation Ltd. were acquired by the company on December 15, 1972 for a cash consideration of \$23,500. The net book value of the net assets of C.S.T. Mortgage Corporation Ltd. at the date of acquisition was \$20,423. The excess of the cost of investment over the equity in net assets acquired amounted to \$3,077.

2. CASH AND CERTIFICATES OF DEPOSIT:

Cash and certificates of deposit are represented by:

		1972	1971
Cash	\$	2,212,106	\$ 1,104,881
Deposit receipts of chartered banks		1,075,804	1,301,848
Short-term notes and collateral loans $$	_	8,454,910	 4,787,747
TOTAL	\$	11,742,820	\$ 7,194,476

3. SECURITIES:

The investments in securities are recorded at cost or amortized cost plus accrued income.

The cost or amortized cost of the securities is:

	December 31, 1972	December 31, 1971
Government bonds	\$ 7,044,647	\$ 7,097,578
Corporate bonds	5,683,845	4,677,605
Stocks	4,681,236	4,221,038
TOTAL	\$ 17,409,728	\$ 15,996,221
The market value is:		
	December 31, 1972	December 31, 1971
Government bonds	\$ 6,020,452	\$ 6,167,279
Corporate bonds	5,322,313	4,240,607
Stocks	4,533,456	3,604,062
TOTAL	\$ 15,876,221	\$ 14,011,948

4. MORTGAGES AND SECURED LOANS:

Mortgages and secured loans are recorded at cost plus accrued interest less payments thereon.

5. REAL ESTATE:

Real estate is recorded at cost less accumulated depreciation of \$64,807 (1971 - \$44,482).

6. LEASE AND SECURED FINANCE CONTRACTS RECEIVABLE:

This includes the following accounts of Pacific Leasing Corporation Limited:

	1972	1971
Lease contracts	\$ 10,432,007	\$ 6,958,903
Assets purchased for lease		
commitments	164,909	192,817
Conditional sales agreements	417,478	497,914
Chattel mortgages	710,976	11,772
	11,725,370	7,661,406
Less:		
Unearned income	2,107,895	1,674,835
Allowance for possible losses	357,895	351,351
TOTAL	\$ 9,259,580	\$ 5,635,220

Accounting policy:

Lease contracts:

The company changed its leasing policy during 1972 to the extent that during the basic term of the lease the lessee normally has an option, exercisable one or two years prior to the expiration of the basic lease term, to purchase the leased equipment at a predetermined price which the company estimates will be the fair market value at that date. Accordingly on execution of the lease the company records the gross rentals to be received until the option date, plus the option price as an asset. The amount by which such amounts exceed the cost of the related equipment is recorded as unearned income. The unearned income is credited to current income over the terms of the leases in diminishing monthly amounts on the sum of the digit method based on payments deemed to be made in accordance with the lessees' contractual obligations.

Formerly, options to purchase equipment were negotiable on expiration of the lease. The accounting practice was as set out above except that a residual value, being the estimated fair market value of the leased equipment at the end of the basic lease term, was recorded rather than an option price.

As a result of this change in leasing policy the company now includes the option price in lease contracts receivable rather than as residual value. The balance of residual value at December 31, 1972 was \$443,047 (1971 - \$1,038,965) and is included with lease contracts receivable on the Balance Sheet.

For income tax purposes, income from lease contracts is based on rents for the year as specified under terms of the leases; leased equipment is recorded at cost and capital cost allowances are claimed against income in accordance with the rates specified in the regulations under the Income Tax Act.

Conditional Sales Agreements and Chattel Mortgages:

Gross receipts to be received over the periods of the agreements are recorded as assets and unearned income is determined and recorded in the same manner as for leases. However, there is no residual value or option price associated with conditional sales agreements and chattel mortgages and income for tax purposes is equivalent to accounting income.

Security:

The underlying asset constitutes the security for the lease contracts. Conditional sales agreements and chattel mortgages are secured by specific charges and in certain circumstances also guarantees and endorsements.

The amounts due within one year are as follows:

	Payments due within one year	Unearned Income Relating Thereto
Lease contracts	\$ 2,815,911	\$ 786,561
Conditional sales agreements	82,328	37,933
Chattel mortgages	511,408	23,474
TOTAL	\$ 3,409,647	\$ 847,968

The remaining amounts receivable are due in varying amounts to 1981.

7. PREMISES, OFFICE EQUIPMENT AND FURNISHINGS:

It is the company's practice to provide for depreciation and amortization of premises, office equipment and furnishings under the straight-line method at rates of 10% and 15% and to provide for amortization of leasehold improvements on a straight-line basis over ten years.

8. UNAMORTIZED DEFERRED COSTS:

The deferred costs consist of incorporation and organization expenses, issue expenses on debentures and costs incurred in opening branch offices. Issue expenses are being amortized over the period the debentures are outstanding. The costs incurred to open branches are being written off over five years.

		1972		1971
Incorporation and organization ex-				
penses	\$	25,826	\$	25,712
Issue expenses on debentures		155,064		_
Opening branch offices	_	30,556	_	3,446
TOTAL	\$	211,446	\$	29,158

9. BANK INDEBTEDNESS:

Bank indebtedness at December 31, 1972 includes:

- A. \$1,800,000 under a line of credit aggregating \$5,000,000 which bears interest at the prime rate plus $1\frac{1}{4}$ %.
- B. \$100,000 under a line of credit aggregating \$1,000,000, which bears interest at the prime rate plus $1\frac{1}{2}$ %.
- The banks hold, as security for the above demand loans, Series A Collateral Trust Notes totalling \$3,600,000 which are secured under the trust indenture as set out in Note 10.
- C. A demand loan of \$55,000 under a line of credit aggregating \$4,000,000 which bears interest at the prime rate plus $1\frac{1}{2}$ %.

10. TERM DEBT:

The details of the debt of the companies, initially negotiated for a term in excess of one year are as follows:

ior a term in excess or one year are a	as lunuws.	
	1972	1971
First City Financial Corporation Lt	td.:	
9% sinking fund debentures, Series A, unsecured,		
due July 15, 1992	\$ 3,000,000 \$	
Pacific Leasing Corporation Limite	d:	
Bank Loan — Prime rate plus	1 1/4 0/0 due	
December 31, 1979	3,039,516	
Collateral Trust Notes: Series:		
A - 6% Maturing March 18	, 1973 500,000	_
A - 10 ³ / ₄ % Maturing November	r 26, 1975 —	100,000

A - 6	6 ⁰ / ₀	Maturing March 18, 1973	500,000	_
A - 1	10 ³ / ₄ ⁰ / ₀	Maturing November 26, 1975	· —	100,000
A - 2	70/0	Maturing November 30, 1981	376,604	399,748
B - 6	0/0	Maturing May 1, 1973	650,000	650,000
C - 6	1/4 ⁰ / ₀	Maturing May 15, 1980	621,000	629,000
		Total collateral trust notes	2.147.604	1.778.748

Notes to the Consolidated Financial Statements

Unsecured sinking fund debentures:

Series:

$A - 7^{0}/_{0}$	Maturing November 15, 19	75 74,000	80,500
B - 70/0	Maturing October 1, 1977	90,500	97,500
C - 6 3/4 0/0	Convertible maturing		
	August 15, 1981	30,000	42,000
	Total unsecured sinking		
	fund debentures	194,500	220,000
		8,381,620	1,998,748
Less sinkin	g fund deposits and		
investm	ents applicable to notes		
and deb	entures	19,928	15,538
Net term o	lebt	\$8,361,692	\$1,983,210

First City Financial Corporation Ltd.:

On July 18, 1972, the company issued \$3,000,000 of unsecured 9% Sinking Fund Debentures, Series A, due July 15, 1992 with sinking fund requirements of \$150,000 annually in each of the years 1976 to 1991 inclusive. The debentures are redeemable at the company's option at any time at the price of the original principal amount plus premium which varies by year during the period the debentures are outstanding. Share purchase warrants issued in conjunction with the debentures entitle the holders thereof to purchase 50 common shares of the company for each \$1,000 principal amount of the debentures at the price of \$13 per share at any time up to July 15, 1977 and at the price of \$16 per share thereafter up to the date of expiration of the warrants, July 15, 1982. The company has designated that the warrants are exercisable from January 15, 1973.

In the Trust Deed under which the debentures were issued, the company has agreed to numerous covenants which restrict certain types of further borrowings by it or a Designated Subsidiary (as defined) and restrict declaration or payment of dividends and other various matters unless the conditions stated within the Trust Deed are met.

Pacific Leasing Corporation Limited:

Bank Loan:

The subsidiary, P.L.C. Investments Ltd. has issued a demand debenture for the principal sum of \$4,200,000 to secure the term loan. One of the covenants included in the debenture and in the term loan agreement stipulates that the subsidiary will not declare dividends without the prior consent of the bank.

As security under the Loan Agreement and the Demand Debenture the subsidiary has:

- A. Mortgaged and charged, by way of a fixed and specific mortgage and charge, all equipment leased under certain specific lease contracts.
- B. Granted and assigned to the lender the proceeds from the related lease contracts.

The loan is to be repaid monthly from the proceeds received under the specific lease contracts pledged as security for the loan, to be applied firstly in payment of interest, and secondly in payment of principal. The balance of principal if any is due December 31, 1979. The payments on principal required over the ensuing five years as indicated by the specified lease contracts presently in force are:

1973	\$608,831
1974	\$653,794
1975	\$724,972
1976	\$638,483
1977	\$413.436

Collateral Trust Notes:

The company is authorized to issue various series of secured Collateral Trust Notes in unlimited amount but only upon and subject to the conditions and limitations as set forth in the Trust Indenture dated May 1, 1963 and as subsequently amended. All Collateral Trust Notes rank pari passu and are secured equally and rateably regardless of date or term of issue. The Series C Notes are redeemable at the company's option at any time at the price of the original principal plus a premium which varies by year during the period the notes are outstanding.

- 1. The 7% collateral trust Note Series A has annual interest and principal repayment requirements of \$51,127 and a final payment of \$79,950 on November 30, 1981.
- 2. The 6½% Collateral Trust Note Series C has annual sinking fund requirements of \$35,000.

There are no further sinking fund requirements on the collateral trust notes.

All of the collateral trust notes are secured by lease contracts receivable and a floating charge on all other assets of the company present and future.

Debentures:

The company is authorized to issue various series of unsecured debentures in unlimited amounts but only upon and subject to the conditions and limitations as set forth in the Trust Indenture dated November 15, 1960, and as subsequently amended. All debentures rank pari passu and are secured equally and rateably regardless of date or terms of issue. All debentures are redeemable at the company's option at any time at the price of the original principal amount plus premium which varies by year during the period the debentures are outstanding.

Under the terms of the Trust Indenture, the company has agreed in addition to other covenants, that not more than one-half of its earnings since November 1, 1960 shall be used to pay dividends or to redeem shares.

- The 7% Sinking Fund Debentures Series A and B have annual sinking fund requirements of \$10,000 to maturity.
- 2. The 6¾ % Convertible Sinking Fund Debenture Series C has annual sinking fund requirements of \$25,000 to maturity. The debentures are convertible at the rate of 45 Class A common shares of the company for each \$1,000 debenture up to August 14, 1976. Of the \$400,000 of Series C Debentures, \$370,000 are held by the company's parent, First City Financial Corporation Ltd.

11. SHARE CAPITAL:

Preferred shares:

On April 28, 1972, the company changed its authorized 800,000 cumulative redeemable exchangeable 5% preferred shares without nominal or par value to 800,000 redeemable exchangeable preferred shares without nominal or par value. The preferred shares now rank equally as to dividends with the common shares except that the rate of dividends on each preferred share is one-third of that on each of the common shares. 400,000 preferred shares are issued and fully paid.

The preferred shares are redeemable at any time at the company's option for the amount paid thereon. The preferred shareholders may at their option at any time up to September 27, 1986 exchange the preferred for common on a three for one basis.

Common shares:

The company is authorized to issue 4,200,000 common shares without nominal or par value. During the year 14,186 shares were issued for consideration of \$7 each under stock option plans that expire December 31, 1974. As at December 31, 1972 there were 691,411 common shares issued and fully paid.

Common shares are reserved for issue as follows:

A. Stock option plans:

Available to employees as determined by the senior executives of the company at a price of \$7 each 7,646

B. A share purchase warrant for a senior executive allows the purchase of shares for \$13 up to July 15, 1977 and \$16 thereafter and up to July 15, 1982 at which time the warrant expires. The number of shares that may be purchased in any year is limited. The warrant is exercisable after July 15, 1976 or such earlier date as the company may designate

20,000

C. Purchase warrants issued in conjunction with the 1972 9% sinking fund debentures

150,000

D. Conversion rights on preferred shares of the company 133,3

TOTAL 133,333 310,979 Shares \$

	Shares	\$
Common shares issued:		
Balance December 31, 1971	677,225	\$5,415,485
Stock options exercised	14,186	99,302
Share purchase warrant	-	5,000
Balance December 31,1972	691,411	\$5,519,787

12. EARNINGS PER SHARE:

Earnings per share have been calculated on the weighted average number of shares outstanding during each period.

Fully diluted earnings per share have been calculated on the assumptions that stock options outstanding at the end of each year were exercised at the beginning of each year and that conversion rights on preferred shares were exercised on the effective date of issue July 16, 1971, and that the share purchase warrants attached to the 1972 9% sinking fund debentures and the share purchase warrant for a senior executive were exercised on the approximate date of issue of the warrants July 15, 1972. Earnings in the amount of \$53,400 net of income taxes were imputed on the assumed funds derived therefrom at an assumed rate of 9% before tax.

	1972	1971
Fully diluted earnings per share	\$1.29	\$.95

Income from operations per share, after deducting minority interest relating thereto, but not including net gain (loss) on equity investments of subsidiary, calculated on the weighted average number of shares outstanding during each period was \$1.50 for 1972 (1971 - \$1.05).

13. NON-RECURRING GAIN:

During the year City Savings & Trust Company issued 175,000 treasury shares to the public. This transaction reduced the equity of the company in City Savings & Trust Company from approximately 96% to approximately 77%.

The proceeds of the issue on a per share basis applicable to the consolidated group of companies exceeded the per share cost to the company. The company diluted its equity in City Savings & Trust Company to the extent of approximately 19%, and in so doing realized a gain of \$178,085, after reducing the amount of recorded excess of cost of investment in subsidiaries over acquired equity in net assets on a pro-rata basis relating to the disposition.

The gain is recorded in the Statement of Retained Earnings. A preliminary decision was made during the year to reflect this gain as an extraordinary item recorded in the Statement of Income. The directors have now decided that the disclosure provided herein is a more meaningful presentation. If the gain had been recorded as an extraordinary item, earnings per share after the extraordinary item would have been increased by 26 cents per share.

14. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The total remuneration received during the year ended December 31, 1972 by directors, as a director, officer or employee of the companies, was \$ Nil; by senior officers of the company was \$26,730.

15. COMPARATIVE FIGURES:

Certain of the 1971 figures provided for the purpose of comparison have been reclassified to conform to the classifications used in the current year.

Notes to the Consolidated Financial Statements

16. COMMITMENTS AND SUBSEQUENT EVENTS:

The company and its subsidiary company, City Savings & Trust Company have undertaken to acquire for \$646,667 and \$1,000,000, 40% and 60% interests respectively in C.S.T. Mortgage Corporation Ltd. which is presently owned by the company. The company has further undertaken to advance funds in the amount of \$353,333 to C.S.T. Mortgage Corporation Ltd. C.S.T. Mortgage Corporation Ltd. has as of January 15, 1973 obtained a line of credit of \$6,000,000.

Pacific Leasing Corporation Limited is negotiating for the issue of further secured debentures, the full details of which have not been determined.

The company's head office, the leasing company's office and the trust company's head office and branch premises are held under long-term leases to a maximum term of ten years. The aggregate amount of rentals in respect of long-term leases incurred as an expense in 1972 was approximately \$199,000. The minimum annual rentals expected to be incurred for each of the next five years under all leases currently in force approximates \$211,000.

17. CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF CASH:

A conventional statement of source and application of funds is not appropriate to this company since "working capital" may include long-term receivables as well as current items. The consolidated statement of source and application of cash is formulated to show comparable information appropriate to this company's business.

Auditors' Report

Deloitte, Haskins & Sells Chartered Accountants

To the Shareholders of First City Financial Corporation Ltd.:

We have examined the consolidated balance sheet of First City Financial Corporation Ltd. and subsidiaries as at December 31, 1972 and the consolidated statements of income, retained earnings and source and application of cash for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their cash for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia February 19, 1973 Deloitte, Hackins & Lells
Auditors





First City Financial Corporation Ltd.

FIRST CITY FINANCIAL CORPORATION LTD.

SIX MONTH REPORT TO JUNE 30 1972

PRESIDENT'S REPORT

The continued growth of your company's two operating subsidiaries is reflected in record earnings of 64 cents per share in the six months to June 30th. This is an increase of more than 60 per cent from 39 cents per share for the corresponding period last year.

Net income in the latest period amounted to \$438,436, a gain of \$175,142.

Gross revenues of \$4,176,476 showed a gain of \$1,111,224 from the same period last year, resulting in large part from the expansion of the services of our subsidiaries City Savings & Trust Company and Pacific Leasing Corporation Ltd. At the same time, we benefitted from only one month's income from Pacific Leasing last year, compared with a full six months' revenues in the latest period. Pacific continues to make an increasingly important contribution to our overall earnings. Lease income in the first half was \$407,701 and, with a new \$4.2 million contract recently signed with a major forest products company, we can look for continuing higher revenues in the months ahead.

City Trust has achieved new growth standards in all phases of operation during the first half, showing record gains in net income, customer deposits and assets under administration. The company opened expanded facilities in Edmonton and a new branch in Toronto, both of which have exhibited a gratifying degree of success.

As reported previously, two important developments for your company took place in July when we successfully completed a \$3 million debenture issue and broadened the market for our common shares through listing on the Toronto Stock Exchange.

Proceeds from the debenture issue are being used to retire a bank loan incurred in purchasing Pacific Leasing, to increase our working capital and to further our growth potential, either through new divisions or by acquiring companies which can complement our range of financial services.

The country's recent return to healthy stability, coupled with the projected growth of our principal subsidiaries, augur well for the immediate and long term future of First City Financial Corporation.

Danuel Betyleng

Samuel Belzberg, President.

CONSOLIDATED STATEMENT OF INCOME

for the six months ended June 30, 1972

REVENUE	1972	1971
Investment income	\$3,031,340	\$2,511,082
Fees, commissions and other income	720,037	503,372
Lease contract income	407,701	33,766
Net rental income	17,398	17,032
Total revenue	\$ 4,176,476	\$3,065,252
EXPENSES		
Interest on guaranteed account	\$1,949,378	\$1,684,023
Interest on long term debt	62,821	<u> </u>
Other interest	126,048	12,495
Operating and administration	576,072	423,766
Salaries and employee benefits	558,281	398,068
Depreciation of office equipment and furnishings	24,763	20,000
Amortization of deferred expenses	3,820	5,000
Total expenses	\$3,301,183	\$2,543,352
Income from operations	\$ 875,293	\$ 521,900
Provisions for Recovery of Income Taxes		
Current	\$ 504,773	\$ 191,068
Deferred	(159,069)	55,289
Total provision	\$ 345,704	\$ 246,357
Income before minority interest	\$ 529,589	\$ 275,543
Minority interest	91,153	12,249
NET INCOME FOR THE PERIOD	\$ 438,436 ======	\$ 263,294
Earnings per share	64c	39c

Consolidated Statement of Source and Application of Cash

for the six months ended June 30, 1972

SOURCE OF CASH Net income for the period	1972 \$ 438,436	1971 \$ 263,294
Depreciation and amortization	28,583	25,000
Deferred income taxes	(159,069)	55,289
Minority interest	91,153	12,249
Cash from operations	\$ 399,103	\$ 355,832
Guaranteed account	14,003,341	7,488,327
Bank loan Decrease in investment in	2,204,359	242,094
securities — net	_	1,596,317
Issue of common shares	45,731	3,500
Sale of real estate — net	<u> </u>	160,937
Other — net	11,466	980,145
Cash on hand at date of purchase of subsidiary	_	97,276
Issue of shares by subsidiary	1,825,148	<u> </u>
Total cash provided	\$18,489,148	\$10,924,428
Investment in securities — net Investment in mortgages and secured loans—net Investment in lease contracts receivable—net	\$ 937,620 2,951,114 2,008,182	 \$ 4,114,147
Increase in accounts		
receivable	807,968	214,543
Investment in subsidiary		1,499,878
Decrease in long-term debt	103,582	- (a) (b) (c)
Additions to real estate—net Additions to premises, office equipment and	155,223	
furnishings — net	362,359	8,575
Dividends	71,969	42,416
Total cash applied	\$ 7,398,017	\$ 5,879,559
Increase in funds for the period Cash and certificates of deposit beginning of the period	\$11,091,131 7,040,243	\$ 5,044,869 3,825,048
Cash and certificates of		
deposit end of the period	\$18,131,374	\$ 8,869,917

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Directors

SENATOR DAVID A. CROLL, Q.C. Toronto, Ontario, Chairman of the Board

SAMUEL BELZBERG, B.Comm. Vancouver, British Columbia, *President*

SENATOR ALLISTER GROSART, B.A. Toronto, Ontario

WILLIAM BELZBERG Calgary, Alberta

JOSEPH H. SHOCTOR, Q.C. Edmonton, Alberta

W. BERNARD HERMAN, Q.C. Toronto, Ontario

HYMAN BELZBERG Calgary, Alberta

MORLEY KOFFMAN Vancouver, British Columbia

Executive Offices:

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